



*Laborers' and Retirement Board Employees'
Annuity and Benefit Fund of Chicago*

January 29, 2016

Re: Chicago Laborers' Fund Update and Need for Legislative Funding Solution

On behalf of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF"), I am writing to update you on the significant financial challenges the LABF currently faces and request your assistance and support in developing a viable legislative solution that puts the LABF on a path toward long-term solvency.

For your background, on June 9, 2014, Senate Bill 1922, which called for several changes to LABF pension benefits beginning January 1, 2015, was signed into law and became Public Act 98-0641 ("Act"). Specifically, the Act called for reductions in future automatic annual increases in annuity, commonly referred to as "COLAs." The Act also required increased pension contributions from active employees in exchange for actuarial-based funding from the City of Chicago that would have put the LABF on a path toward reaching 90% funded status by 2055. In late December 2014, two lawsuits were filed challenging the constitutionality of the Act on the grounds that it diminished pension benefits and, therefore, violated the pension protection clause of the Constitution of the State of Illinois. On July 24, 2015, the Act was ruled unconstitutional by the Circuit Court of Cook County. The ruling is currently under appeal in the Illinois Supreme Court. With the law now in question and the absence of pension reform, we must review what the future may hold for LABF.

For most public pension funds in the State, recently discussed reforms would only modify the date by which they reach 90% funded status on an actuarial basis. In other words, with or without reform, these funds will survive so long as the plan sponsors continue to make the actuarial-based contributions prescribed by law. For the LABF, the lack of pension reform has a far more severe impact. Unlike the sections of the Illinois Pension Code specific to most other public pension funds in the State, the section specific to LABF does not impose an actuarial-based funding requirement. As a result, for the LABF, this means the difference between long-term solvency and becoming completely insolvent by approximately 2029.

For an illustration of the dire circumstances under which the LABF currently operates, please see the attached *Pension Fund Overview Report* which was prepared jointly with the Municipal Employees' Annuity and Benefit Fund of Chicago.

The key takeaways from the report include:

- The LABF is inadequately funded due to a statutorily-prescribed, static contribution multiple that is not tied to the economic condition of the plan.

(For example: The LABF receives approximately 18% of the actuarially required contribution ("ARC") whereas the State funds depicted in the report receive anywhere from 88% to 96% of the ARC)

*Suite 1300 • 321 North Clark Street • Chicago, Illinois 60654-4739
(312) 236-2065 • Fax (312) 236-0574*

- . Inadequate funding requires the LABF to liquidate an excessive amount of its investments annually to offset its large operating cash flow deficit.

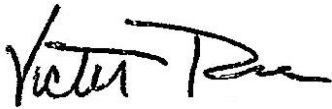
(For example: The LABF is forced to liquidate approximately 9% of its investments annually whereas the State funds depicted in the report liquidate anywhere from 0% to 2%)

- . Due to being forced to liquidate large sums, the LABF cannot grow assets.

(For example: Despite strong investment returns, the LABF assets grew by just 4.1% over the five-year period ending December 31, 2014 whereas the State funds depicted in the report grew by anywhere from 37.2% to 72%)

Without a legislative solution that includes sound actuarial funding principles, the LABF is certain to fail. Without reform, thousands of LABF members, and their beneficiaries who are depending on the fund to provide retirement security, will be left with uncertain financial futures. Further complicating the situation, the vast majority of LABF members do not qualify for Social Security. Unless the Illinois Supreme Court reinstates PA 98-0641, the LABF is in great need of your help and support. We stand ready to provide you and all stakeholders with the information needed to craft a viable legislative solution that puts the LABF on a path toward long-term solvency. Please feel free to use us as a resource. The serious structural challenges the LABF faces are causing the LABF's financial condition to deteriorate at an alarming rate. Time is of the utmost importance.

Sincerely,

A handwritten signature in black ink, appearing to read "Victor Roa". The signature is fluid and cursive, with a large initial "V" and a stylized "R".

Victor Roa
Board President

Enclosure

Pension Fund Overview Report:

Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF") & Laborers' Annuity and Benefit Fund of Chicago ("LABF")

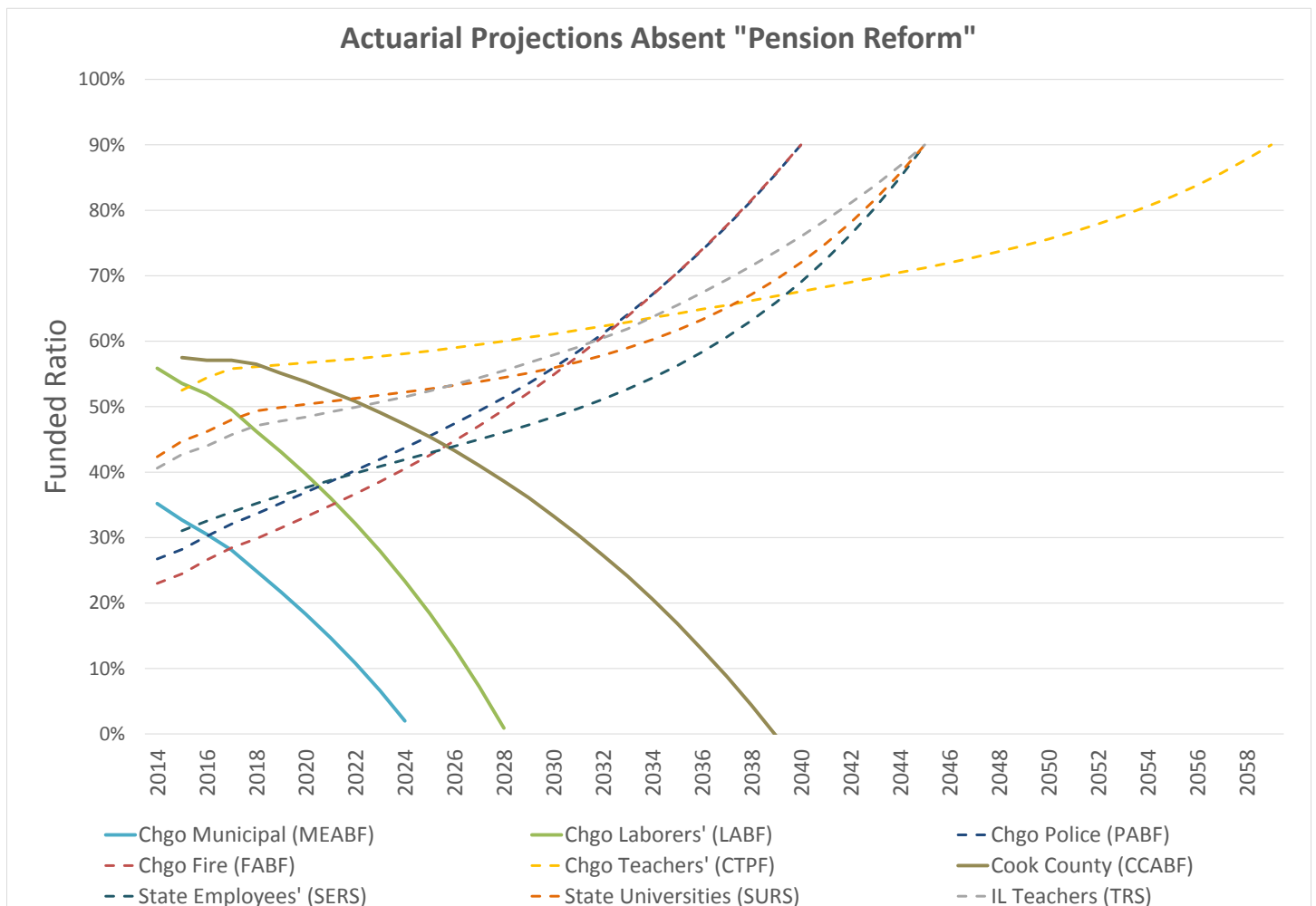
October 7, 2015

OVERVIEW:

- Combined, the MEABF and LABF have approximately 79,000 members made up of current and former City of Chicago and Chicago Board of Education employees
- Active employees pay 8.5% of their gross salary toward their pension
- Members do not receive credits toward a Social Security benefit; therefore, most rely heavily on the MEABF and LABF to provide retirement security
- Average annuity is \$34,548 for MEABF and \$45,968 for LABF

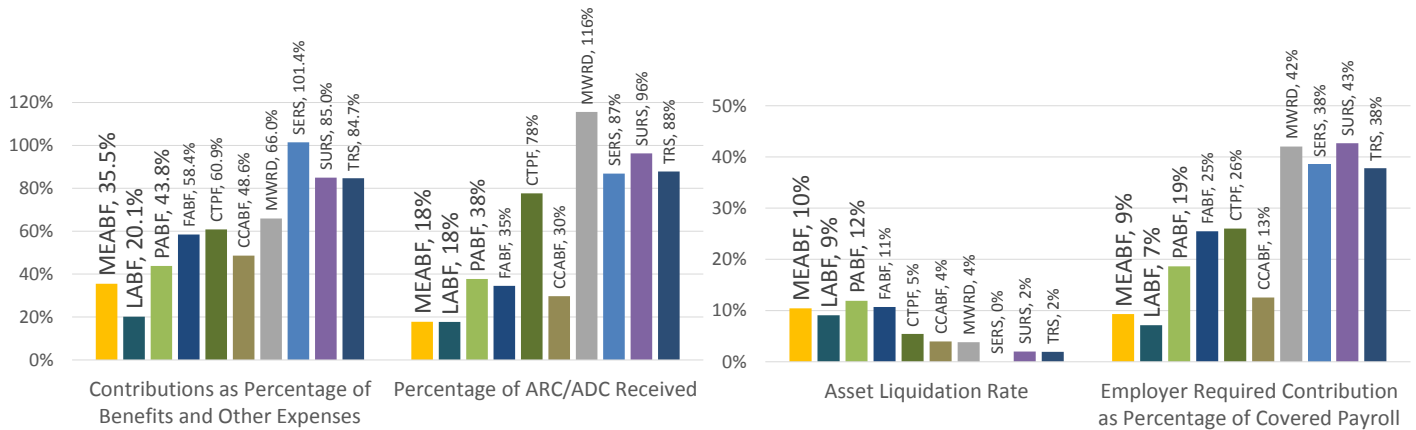
THE ISSUE:

All the public pension funds depicted in the chart below have recently been the subject of "pension reform" that has either been overturned by the courts or not yet become law. However, "pension reform" has a very different meaning for MEABF and LABF. Even without "pension reform", most public pension funds in the State will eventually achieve solvency, yet **the MEABF and LABF are certain to fail!**



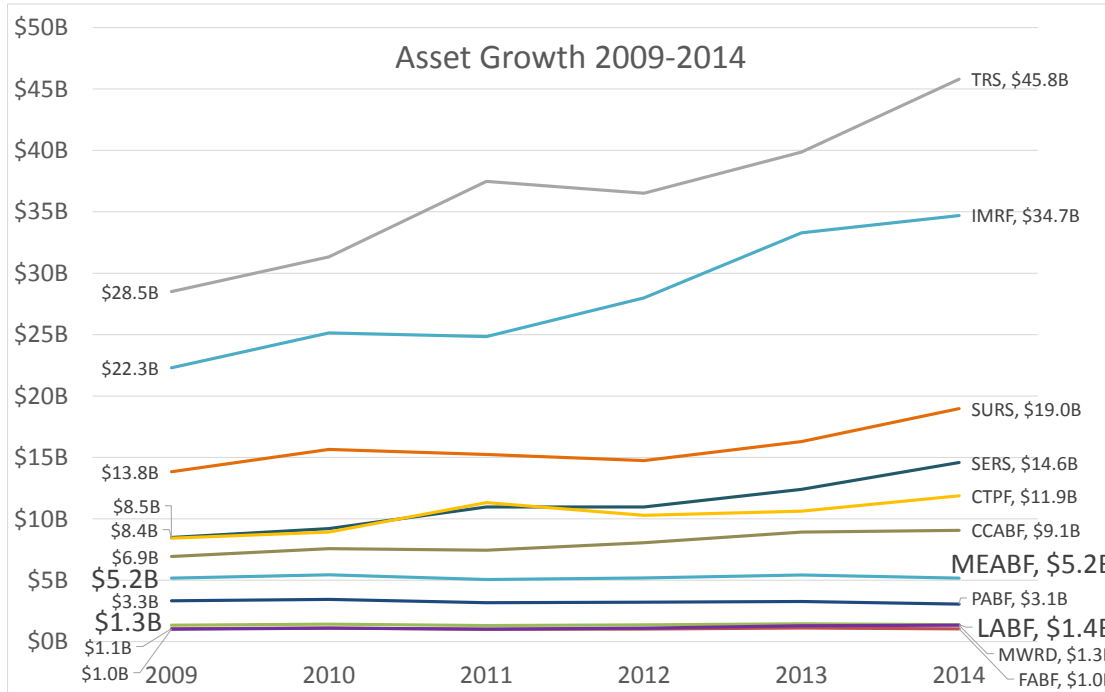
FACTORS:

- The MEABF and LABF have been severely underfunded due to inadequate statutory contributions
- Most public pension funds in the State now have actuarial-based funding mechanisms that tie contribution levels to the financial conditions of the funds; both MEABF and LABF have static contribution multiples (1.25x for MEABF and 1x for LABF)



LOST OPPORTUNITY COST:

- Underfunding forces the MEABF and LABF to liquidate assets to supplement benefit payments; the MEABF and LABF liquidate approximately 10% and 9%, respectively, to pay benefits and meet other operating needs
- This means that the MEABF and LABF must generate double-digit rates of investment return just to break even in term of asset growth each year



Fund	5-yr Growth
SERS	72.0%
TRS	60.7%
IMRF	55.6%
CTPF	40.9%
SURS	37.2%
MWRD	31.8%
CCABF	30.9%
LABF	4.1%
MEABF	0.3%
FABF	-1.5%
PABF	-7.9%
S&P 500	105.2%
Bonds	24.3%

The MEABF and LABF need parity relative to other public pension funds in the State that are on a path toward long-term solvency.